

DG 05-158

NEW HAMPSHIRE GAS CORPORATION

Winter 2005/2006 Winter Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 24,536

October 31, 2005

APPEARANCES: Ransmeier & Spellman by Dom S. D'Ambruoso, Esq., on behalf of New Hampshire Gas Corporation and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

On September 28, 2005, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing propane air gas in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate and Fixed Price Option (FPO) rate for the period November 1, 2005 through April 30, 2006. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Karen L. Zink, Treasurer of NHGC. An Order of Notice was issued on September 29, 2005, scheduling a hearing for October 25, 2005. There were no intervenors in this docket. The hearing was held as scheduled on October 25, 2005.

II. POSITIONS OF THE PARTIES AND STAFF

A. New Hampshire Gas Corporation

NHGC witness Karen Zink addressed the following issues in her testimony: 1) calculation of the COG rate and the impact on customer bills of the COG rate and the previously authorized increase in the delivery rate; 2) the FPO rate; 3) reasons contributing to the increased

rates; 4) gas supply purchasing policies; 5) supply reliability; 6) unaccounted for gas losses; and 7) charging the COG and FPO rates on a bills-rendered basis.

1. Calculation of the COG Rate and Customer Impact of Rate Increases

The proposed revised 2005/2006 winter COG rate of \$1.5060 per therm was calculated by decreasing the anticipated cost of gas of \$1,505,507 by a prior period over-collection and related interest of \$35,211 and dividing the resulting total anticipated costs of \$1,470,296 by projected therm sales of 976,301. This represents an increase of \$0.2413 per therm over the 2004/2005 average winter COG rate of \$1.2647 per therm.

The proposed higher winter COG rate results in an increase in gas costs of \$230 for a typical residential heating customer over the course of the winter. There is also a \$27 increase related to a delivery rate increase effective November 1, 2005, as approved in *New Hampshire Gas Corporation*, 87 NH PUC 859 (2002) and a \$5 decrease due to the elimination of the rate case expense surcharge. The net combined increase for a typical residential heating customer will be \$252, or a 19 percent increase, over last winter.

2. Fixed Price Option Program

In *New Hampshire Gas Corporation*, 86 NH PUC 566 (2001), the Commission approved NHGC's FPO program for implementation during the 2001/2002 winter COG period. Volumes to be offered under the program were set at fifty percent (50%) of weather normalized sales. Order No. 24,516 (September 19, 2005) approved a revised FPO program for NHGC. Based on the approved FPO rate calculation methodology, whereby the FPO rate is set \$0.02 per therm above the proposed COG rate filed with the Commission on or before October 1, the 2005/2006 winter FPO rate is set at \$1.5260 per therm.

NHGC notified customers of the FPO program through a letter dated October 1, 2005. The letter provided specific details on the program and provided an enrollment form. With only a few days remaining in the open enrollment period, approximately 86% of the available volumes had been subscribed for the 2005/2006 winter period. Unsubscribed FPO supplies will be used to satisfy non FPO supply requirements and serve as a hedge against price fluctuations for the COG customers.

3. Factors Contributing to the Increased Rates

Ms. Zink explained that the projected gas costs for the upcoming winter period are higher than those paid last winter due to substantial increases in the pre-purchased price and projected market prices for propane. The increased costs for propane are indicative of the higher costs for natural gas and oil. These higher costs are reflected in higher rates.

4. Gas Supply Purchasing Policies

Ms. Zink testified that propane purchasing strategies are determined by an employee who reports to her and are not based on a formal plan. While normally NHGC seeks to time its propane pre-purchases to coincide with periods when propane prices are typically at their lowest, this year propane prices were relatively high throughout the summer and NHGC delayed making its pre-purchases until late in the summer period in the hope that prices would moderate. As a result, pre-purchased supplies for this winter were made late in the season at prices in effect at that time.

Although NHGC does not currently have a formal purchasing plan, it is considering implementation of a plan whereby specific volumes are purchased by specific dates prior to the winter period. If NHGC develops a formal plan for pre-purchasing winter supplies, it will submit the plan to the Commission for review prior to adoption.

5. Supply Reliability

Ms. Zink stated that, unlike the prior two winters, it did not contract for propane supplies from Newington, New Hampshire, instead contracting exclusively for supply from Selkirk, New York, as those supplies were considerably less expensive. She explained that while there had been a supply disruption at the Selkirk terminal on at least one occasion, the Selkirk supplies were made available at other receipt points. In addition, this winter NHGC has contracted for additional propane tank storage in Greenfield, Massachusetts, approximately one hour from Keene. This arrangement provides NHGC with an additional 46,766 gallons of storage and substantially reduces the impact a supply disruption at Selkirk might otherwise impose on the system. Propane supplies are to be trucked to NHGC under a contract between NHGC and a propane trucking company that has provided reliable service to NHGC over a number of years.

6. Unaccounted for Gas Losses

Relative to other gas utility systems, NHGC has a high percentage of unaccounted for gas. NHGC has developed and is implementing a four part plan to reduce the amount of unaccounted for gas and will continue to monitor and report unaccounted for gas volumes.

The four part plan is to: 1) prioritize and actively repair leaks; 2) lower the distribution system pressure during the summer; 3) test and change out approximately 35% of its largest gas meters within the next year; and 4) change the customer billing cycle to ensure the largest meters are read early in the cycle. These steps are expected to reduce losses due to leaks, inaccurate meter reads and timing differences between usage and billing. At hearing, Ms. Zink stated that NHGC is willing to develop a written plan which will establish a periodic calibration

program for meters, identify the causes of unaccounted for gas, and ultimately reduce unaccounted for gas amounts.

7. Rate Changes on a Bills-Rendered Basis

NHGC requested the Commission waive N.H. Code Admin. Rules Puc 1203.05(b), which requires rate changes to be implemented on a service-rendered basis, noting that the Commission has granted the waiver in previous COG and delivery rate proceedings.

B. Commission Staff

Staff recommended approval of NHGC's proposed Cost of Gas rates, based on an audit of last summer's gas costs and its review of the filing. Staff also recommended that the Company implement a pre-purchase policy that incorporates target dates for purchasing portions of its anticipated requirements, as such a policy results in purchases being made over a longer period of time during periods of rising prices, and is therefore less risky than purchasing large amounts over a very short period of time. Staff also suggested that NHGC should continue to look at diversifying its winter supply portfolio by contracting for a portion of its supply from Newington, New Hampshire, when it can be done in a cost effective way. Staff stated that the NHGC's actions addressing the unaccounted for gas losses are appropriate and it looks forward to further updates.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that NHGC's proposed winter COG rate and FPO rate will result in just and reasonable rates pursuant to RSA 378:7. While the rate increases are substantial, they nevertheless fairly reflect increases in the market costs of propane. Accordingly, we approve such rates.

We note that NHGC's purchasing policies are consistent with past practice, although we are concerned with NHGC's apparent lack of a detailed purchasing plan. In an era of high gas price volatility and increasing prices, trying to time the market to get the best price is a speculative strategy that could well result in rates that are higher than if NHGC were to purchase supplies over a longer period of time. We urge NHGC to closely consider adoption of a purchasing policy that does more than simply look at historical prices.

The issue of lost and unaccounted for gas is important, as customers must pay for losses through the COG, which can be substantial at today's prices. NHGC's commitment to develop a written plan for periodic calibration of meters, identifying the causes of unaccounted for gas and reducing unaccounted for levels is appropriate. We encourage NHGC to consult with Staff regarding the development of the plan and we will review it as part of the next COG proceeding.

N.H. Code Admin. Rule Puc 1203.05 provides that, in general, rate changes must be implemented on a service-rendered basis. However, subsection (c) of the rule specifically contemplates waivers of this requirement in appropriate circumstances, and requires utilities seeking to implement rate changes on a bills-rendered basis to address such issues as potential customer confusion, implementation costs, the matching of revenue with expenses and the objective of adequate customer notice. NHGC customers are accustomed to rate changes on a bills-rendered basis and a change in that policy may result in customer confusion. In addition, the current billing system is not designed to accommodate billing on a service-rendered basis and such a change would necessitate modifying or replacing the existing billing system at some cost to NHGC. Based upon these considerations, we grant NHGC's request for a waiver of the requirement that rate changes be implemented on a service-rendered basis.

Based upon the foregoing, it is hereby

ORDERED, NHGC's request for waiver of N.H. Code Admin. Rule Puc 1203.05

(b) is GRANTED; and it is

FURTHER ORDERED, that NHGC's proposed winter COG rate of \$1.5060 per therm and the FPO rate of \$1.5260 per therm for the period November 1, 2005 through April 30, 2006 are APPROVED effective for bills rendered on or after November 1, 2005; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved winter COG rate of \$1.5060 per therm upward or downward monthly based on NHGC's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than twenty percent (20%) from the approved unit COG; and it is

FURTHER ORDERED, that NHGC shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. NHGC shall include a revised tariff page 24 - Calculation of Cost of Gas and revised rate schedules if NHGC elects to adjust the COG rate; and it is

FURTHER ORDERED, that the over or under-collection shall accrue interest at the Prime Rate as reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first business day of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that NHGC shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first
day of October, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary